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November 14, 2005

AGENDA ITEM 6.b

TO: MEMBERS OF THE INVESTMENT COMMITTEE

- I. SUBJECT:** Selection of Environmental Equity Managers for Spring-Fed Pool and Term of Contracts
- II. PROGRAM:** Global Equity
- III. RECOMMENDATION:** (1) Approve the following group of managers for inclusion in the Spring-Fed Pool of managers for environmental equity investment management services, subject to successful negotiation of fees and terms:

AXA Rosenberg	(U.S. Equity)
New Amsterdam Partners	(U.S. Equity)
Piper Jaffray & Co. – INTECH	(U.S. Equity)
State Street Global Advisors	(U.S. Equity)
Brandywine	(International Equity)
State Street Global Advisors	(International Equity)

(2) Approve the use of annual review contracts for the Spring-Fed Pool for environmental equity management services.

Wilshire Associate's opinion letter is shown in Attachment 1. Wilshire's conflict of interest disclosure is shown in Attachment 2.

IV. ANALYSIS:

Background

In February 2004, the Treasurer's Office initiated an "Environmental Investment Proposal for Consideration by CalPERS and CalSTRS." This proposal is shown in Attachment 3. The Proposal, among other things, called on CalPERS to examine an investment strategy in environmentally screened public equity funds that are performing as well or better than their non-screened counterparts. Specifically, the Treasurer requested that CalPERS and CalSTRS should invest a combined \$1

billion of their stock portfolios in environmentally screened funds through leading active public equity investment managers with proven track records.

At its April 19, 2004 meeting, the Investment Committee voted to allow staff, in its discretion, to either: (1) hire external managers for up to \$500 million total, or (2) allocate up to \$500 million in mutual funds that have good records, or (3) a combination thereof to achieve the best results for the System.

Mutual funds were considered first with an RFI issued in September 2004. Subsequently, on March 31, 2005, CalPERS invested in BGI's iShares KLD Select Social Index Fund, an Exchange Traded Fund (ETF). Current assets in this strategy are \$74.5 million.

At its April 18, 2005 meeting, the Investment Committee approved the issuance of a Request for Proposal (RFP) with a Spring-Fed Pool feature for environmental equity managers and reviewed minimum qualifications and scoring.

Manager Search Process

The RFP, which provided for optional Investment Committee interviews of finalists, was issued on May 13, 2005. Proposals were sent to firms identified through the prior RFI search completed by staff and Wilshire Associates. In addition, the RFP was advertised in *Pensions and Investments* and the *Financial Times*.

CalPERS received thirty-one proposals for environmental investing, of which all but two met the minimum qualifications listed in the RFP.

All of the qualifying proposals were read and scored by staff (Christy Wood, Mary Cottrill, Geraldine Jimenez, Sheila Halousek, and Winston Hickox) according to the criteria listed in the RFP. The scoring categories included:

- Organization / Investment Professionals
- Investment Philosophy and Process
- Trading Process and Systems
- Performance
- Composite / Product Information

The proposals were also reviewed by Wilshire Associates.

Seven firms, representing eight proposals, were invited to interview with staff at CalPERS offices on October 19th and October 20th. Representatives from Wilshire Associates were in attendance at the interviews. The interviews were scored by

staff in accordance with the criteria listed in the RFP. The scoring categories included:

- Business Strategy
- Organization / Investment Professionals
- Investment Philosophy and Process
- Trading Process and Systems
- Risk Management

Fee proposal scores were combined with the Technical Proposal and Staff Interview scores to determine the firms to be recommended to the Investment Committee.

Based on the results of the RFP process, staff and Wilshire recommend the six products listed in the recommendation section above be included in the Spring-Fed Pool of managers for environmental investing services.

Annual Review Contracts

Staff recommends the use of annual review contracts, which provide for an undefined duration, for this RFP. This would be consistent with the contracting procedure used for all other investment management contracts. This recommendation is necessary to fulfill CalPERS' fiduciary duties to its members because the use of annual review contracts is a more efficient use of CalPERS staff and Board time and other resources. The award of contracts without a defined duration is allowed under Board Resolution 92-04B-4.

Funding

Funding of managers for the environmental investing management Spring-Fed Pool will come primarily from passively managed public equity assets or cash inflows.

V. STRATEGIC PLAN:

Goal IX: Achieve long-term, sustainable, risk adjusted returns.

VI. RESULTS/COSTS:

Funding to the new managers will expand the Global Equity opportunity set and is expected to enhance risk-adjusted returns in this asset class.

Prepared by:

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